Office of Risk Management

Annual Report

June 30, 2001

Office of the Governor
Division of Administration

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A Message from the State Risk Director

For the third year in a row, the financial statement of the Office of Risk Management reflects that the agency completed fiscal year 00/01 in the black and was able to decrease its total deficit.

The factors that contributed to the successful operations were a competent, productive work force, the tort reform of 1995, and our Loss Prevention 5% safety discount/surcharge program.

The management of the Office of Risk Management continues to search for better ways of carrying out its mission of providing cost effective self insurance for the state.

I would like to take this opportunity to express my gratitude to my assistant director, my unit managers, and all employees of the Office of Risk Management who work very hard to bring about the success that this agency achieves. I would also like to thank the Governor, the Commissioner of Administration, the members of the Legislature and their staffs for the support extended to ORM during this past year.

Sincerely,

Seth E. Keener, Jr

Seth E. Keener, Jr.

Office Profile

Mission Statement

The mission of the Office of Risk Management (ORM) is to develop, direct, achieve and administer a cost effective comprehensive risk management program for all agencies, boards and commissions of the State of Louisiana and for any other entity for which the state has an equity interest, in order to preserve and protect the assets of the State of Louisiana.

History

The Office of Risk Management was created within the Division of Administration by R.S. 39:1527, et seq., in order to provide a comprehensive risk management program for the state.

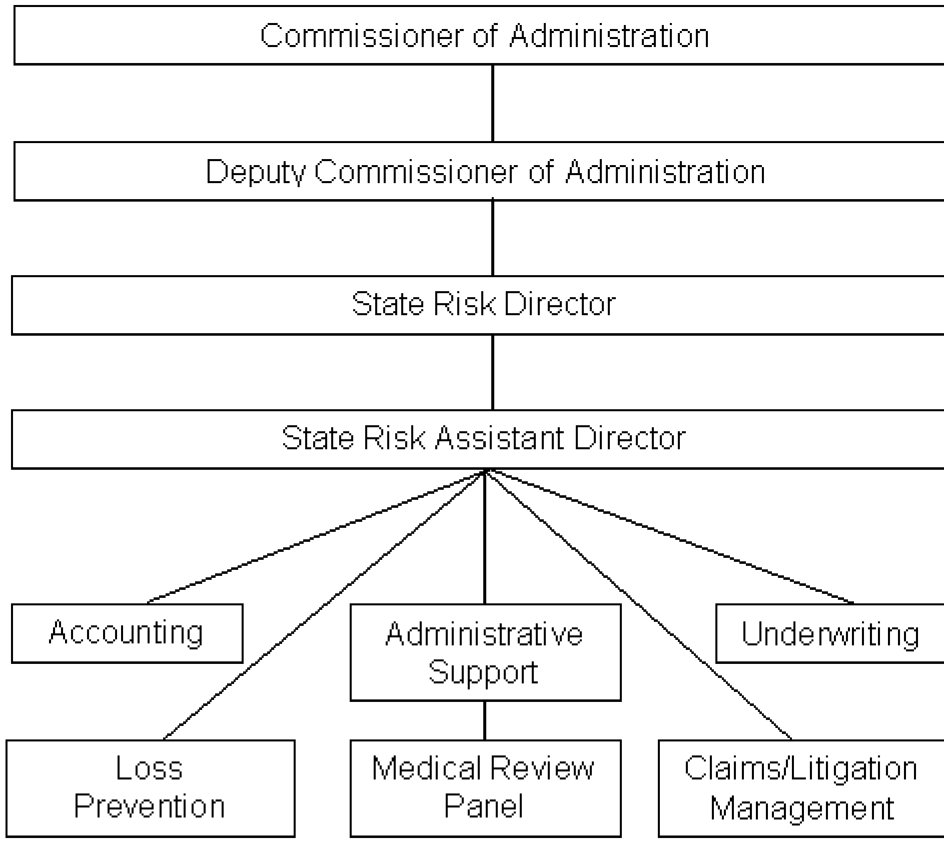
Coverages Provided

R.S. 39:1527, et seq., further designates the Office of Risk Management to be solely responsible for all Property and Casualty and Worker's Compensation insurance purchased by ORM or self-insured by ORM for all State departments, agencies, boards, and commissions.

The Office of Risk Management provides Workers' Compensation coverage to all of the State's approximately 104,277 employees. Coverage is provided for State property valued at $7,312,779,745. ORM also provides coverage for employee bonds, crime, automobile liability and physical damage, comprehensive general liability, personal injury liability, boiler and machinery, medical malpractice, road hazards and miscellaneous tort coverage for those tort claims not otherwise covered.

Other coverages are provided, as needed, such as excess over self-insurance, specific excess for crime, aviation, wet marine, and bridge property damage.

Organizational Chart



Office Directory

MAIN OFFICE **Mailing Address** P.O. Box 94095 Baton Rouge, LA 70804-9095	**MAIN OFFICE** **Location Address** 626 N. 4th, Room 400 Baton Rouge, LA 70804-9095
Loss Prevention Branch Offices	**Claims Branch Offices**
Belle Chase **C/O Metropolitan Development Center** **251 F. Edward Hebert Blvd.** **Room 65, Administration Bldg.** **Belle Chase, LA 70037** **(504) 394-1200 Ext. 296**	**Kenner** **Airport Commerce Center** **1919 Veteran's Blvd.** **Suite 301** **Kenner, LA 70065** **(504) 471-2739**
Lafayette **101 Rue Iberville, Suite 103** **Lafayette, LA 70508** **(504) 262-5580**	**Lafayette** **101 Rue Iberville, Suite 103** **Lafayette, LA 70508** **(504) 262-5113**
Luling **107 Maryland Drive, Suite C** **Luling, LA 70070** **(504) 785-1846**	**Monroe** **122 St. John Street** **Post Office Box 1661** **Monroe, LA 71210-1661** **(318) 362-3307**
Monroe **122 St. John Street** **Post Office Box 1661** **Monroe, LA 71210-1661** **(318) 362-3308**	**New Orleans** **1541 Tulane Avenue** **Butterworth Building, Room 111** **New Orleans, LA 70140** **(504) 568-6825**
Pineville **Suite 102, Euclid Street** **Pineville, LA 71360** **(318) 487-5014**	**Pineville** **Suite 102, Euclid Street** **Pineville, LA 71360** **(318) 487-5701**
Shreveport **State Office Building** **1525 Fairfield Ave., Box 2** **P.O. Box 37631** **Shreveport, LA 71133-7631** **(504) 676-7647**	**Shreveport** **State Office Building** **1525 Fairfield Ave., Box 2** **P.O. Box 37631** **Shreveport, LA 71133-7631** **(504) 676-7649**
Auditors Office of the Legislative Auditor 1600 North Third Street P.O. Box 94397 Baton Rouge, LA 70804-9397 Telephone: (225) 339-3900 Fax: (225) 339-3870	**Actuary** Tillinghast-Towers Perrin 1200 Riverplace Boulevard Suite 610 Jacksonville, FL 32207-1803 Telephone: (904) 398-5661 Fax: (904) 399-8267

Achievements

Accounting

The Accounting Unit of the Office of Risk Management has completed another successful year and continues to provide management with accurate, timely, fiscal data to enable and enhance the decision making process.

In addition to the routine daily activities that support the functions listed below, the Accounting Unit officer and managers were involved in providing specialized information and analyses for the Director, Commissioner, Assistant Commissioner and on an "as needed" basis for the Division of Administration, Office of State Planning and Budget, Joint Legislative Committee on the Budget, Legislative Fiscal Office and other agencies statewide.

- Cash Management of $172 million
- Accounts Payable
- Accounts Receivable
- Fixed Asset Management
- Payroll processing for 130 employees
- Imprest Fund System
- Bank Reconciliation for approximately 7000 checks monthly
- Cost Accounting and Analyses
- Monitoring and Quality Control on Claims Management System
- Budget Preparation for total budget of $175 million
- Budget Monitoring by cost center (monthly) on 23 cost centers
- Actuarial Reporting on 15 lines of self-insurance for claim reserves (liabilities) totaling in excess of $1.2 billion
- Maintenance of a computerized accrual Accounting System for financial reporting of 18 lines of insurance for managerial purposes and a modified accrual basis system for state wide financial reporting
- Billing documents for each of the approximately 200 state billing entities on ISIS
- Processing of all travel expense reports
- Assisting with Premium Development on 15 lines of self-insurance
- Processing Litigation Division/Department of Justice payments and entry to Claims System
- Distribution of approximately 7000 checks per month
- Preparation of approximately 1,350 contracts and 800 amendments
- Payment of approximately $10 million for contract legal services and $1.5 million for contract investigative/adjusting services
- Maintained the use of "experience rating" in premium development

Claims

As of June 30, 2001 there were 13,234 claims pending, with case and allocated loss adjustment expense reserves of $617,963,135.81.

The Claims Section opened a total of 13,658 claims in FY 00-01. The total medical/indemnity payments were $ 113,657,353. Claims recovered a total of $611,857.24 through pursuing the State's subrogation rights.

The Claims Section also completely revised the section's policies and procedures, including all the exhibits and examples, and made them readily available for all employees through the computer system.

The Workers' Compensation unit has once again noticed a decrease in the number of claims opened during fiscal 00/01. There were 5216 new claims opened, which is a decrease of 170 claims from last fiscal year. The Workers' Compensation unit recovered $1,698,592.24 from the Second Injury Board. A total of $306,081.76 was recovered from excess carriers, which represents a slight increase from last fiscal year. Also realized a total savings of $3,476,179.75 through bill review and fee scheduling, which is an increase in savings of $686,783.54 over last fiscal year.

The Property unit was successful in collecting $750,000 from the excess carrier in the Louisiana Educational Television Authority's station claim in which the TV tower collapsed and employees were injured.

In the Road Hazards Unit, we have continued the ORM/LSP Accident Reconstruction Program with great success. During the 2000-2001 fiscal year, the LSP and the La. DOTD investigated 289 highway accidents. Coordinated efforts between the agencies resulted in the correction of numerous roadway deficiencies around the state. To date, 22 lawsuits have been filed against the La. Dept. of Transportation and Development in which the LSP conducted an investigation through the ORM/LSP Accident Reconstruction Program. As these claims proceed through the litigation process and become final, we will be able to report on the results and success of the program. We also continue to conduct the Interagency Road Hazard Committee Quarterly Meetings, a forum where representatives from the Office of Risk Management, Office of the Attorney General, La. Department of Transportation and Development, Louisiana State Police and the Louisiana Highway Safety Commission meet and discuss Highway Tort issues and discuss problems and possible solutions. During the 2000-2001 fiscal year, the Committee was instrumental in obtaining federal funding to upgrade computer software for the Total Stations utilized by the Louisiana State Police for accident reconstruction and to equip the LSP patrol units with Global Positioning Satellite Systems (currently being studied by the LSP).

Loss Prevention

Fiscal year July 1, 2000 – June 30, 2001 continued to be a very productive and rewarding year for the Unit. Since Louisiana Revised Statutes 39:1536-43 was amended to allow the Office of Risk Management to credit or charge agencies 5% of their annual premium following the annual Loss Prevention Audit, all Departments have initiated a Loss Prevention Program. The Unit audited all of the twenty-one (21) Departments and six (6) Boards and Commissions. Two thousand three hundred seventy four (2,374) individual audits were conducted. Sixteen (16) of the Departments and four (4) of the Boards and Commissions passed the audit.

The Interagency Advisory Council met quarterly to provide the Departments with information regarding current events at the Office of Risk Management. One representative from each Department is invited to the meeting to discuss any matter relating to the Office of Risk Management. Other employees of the various departments may attend. Currently over seventy-five (75) representatives attend each meeting.

"Workplace Safety" courses continued to provide the agencies with the information necessary to pass the Loss Prevention Audit and to assist them in rendering a safe workplace for employees. The Loss Prevention staff has expanded the courses from twenty-one (21) to twenty-four (24). Topics now taught include Accident Investigation, Asbestos Awareness, Blood Borne Pathogens, Bonds and Crime, Confined Space Entry, Drug Testing and Substance Abuse, Electrical Safety, Employment Practice Liability, Ergonomics in the Workplace, Fire Prevention and Control, Forklift Training, Hand Tool Training, Hazard Communication, Hazardous Materials, Indoor Air Quality, Job Safety Analysis, Laboratory Safety, Lock-Out Tag-Out, Material Safety Data Sheets, Respiratory Protection, Security, Threats in the Workplace, Tuberculosis and Violence in the Workplace. During the past fiscal year the Loss Prevention staff taught one hundred forty two (142) classes with seven thousand five hundred sixty six (7,566) state employees attending. A new course, The Loss Prevention Program, was initiated in October 2000. This day and a half course reviews the entire Program, all lines of insurance and the corresponding audits. Six (6) of the courses were taught in Baton Rouge, New Orleans, Alexandria, Shreveport and Monroe with over nine hundred (900) employees attending.

A new defensive driving program, Next Step Coaching, was introduced to train all state employees. Numbers from the past fiscal year indicate the Loss Prevention staff held seventy-four (74) driving instructor classes and certified five hundred forty one (541) instructors. The number of state employees receiving training exceeded eighteen thousand four hundred eighty nine (18,489).

The State Land and Building System (SLABS) is the program that allows the Loss Prevention Unit to update all buildings in a five-year (5) period. There are approximately nine thousand eight hundred eighty five (9,885) state owned structures with replacement values in excess of six billion three hundred ten million ($6,310,000,000) dollars. Replacement cost of the non-state owned buildings exceeds seventy eight million two hundred thousand ($78,200,000) The Unit appraised two hundred ninety five (295) new buildings and reappraised over four thousand eight hundred four (4,804) buildings.

The Loss Prevention staff made three thousand eighty six (3,086) consultation visits to the agencies to assist them with various loss prevention problems. Ninety-seven (97) of the visits were investigations requested by the Claims Unit.

The Office of Risk Management Recognition Program continues to acknowledge state agencies or state employees who make significant contributions to the Loss Prevention Program. To receive an award one of the following criteria must be met: (1) heroic act in the workplace (2) development of a safety awareness program (3) installation of methods to reduce claims and costs for the State of Louisiana or (4) development of cost savings programs affecting one or more lines of insurance. The individual winners in FY 2000 - 2001 were from the Department of Wildlife and Fisheries, Division of Administration, the Department of Transportation and Development, Department of Culture, Recreation and Tourism, Department of Public Safety, Department of Health and Hospitals, and the Community and Technical College System. The agency winners were the Division of Administration and the Department of Military Affairs.

Loss Prevention maintains and loans approximately three hundred (300) safety videos for use by all agencies to assist them in their loss prevention program. In the past fiscal year we loaned four hundred fifty one (451) videos.

Underwriting

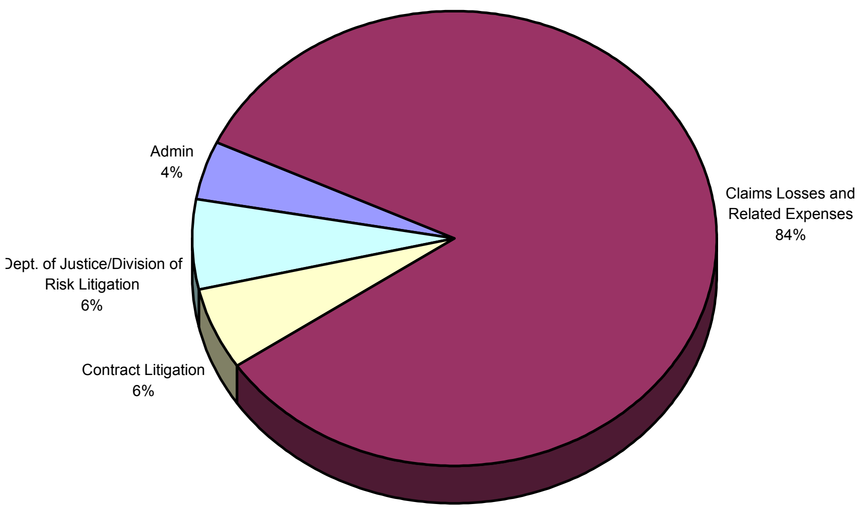
In an effort to better utilize State resources, the Underwriting Unit has increased its use of electronic communications with the various State Departments, Agencies, Boards and Commissions, as well as insurance vendors. Many documents such as bid specifications, information notices, exposure manuals, insurance requirements for contracts, insurance coverages and claims reporting procedures, were placed on the Office of Risk Management's website. When requests were received for such information, they were referred to the website. The information was available to the entity requesting the information almost immediately.

During this FY 2000-2001 the Underwriting Unit embarked on the task of imaging the documents maintained by the unit. The project involved developing an index system for retrieving documents, scanning and indexing documents, and destruction of successfully imaged documents. This project will continue into the next fiscal year.

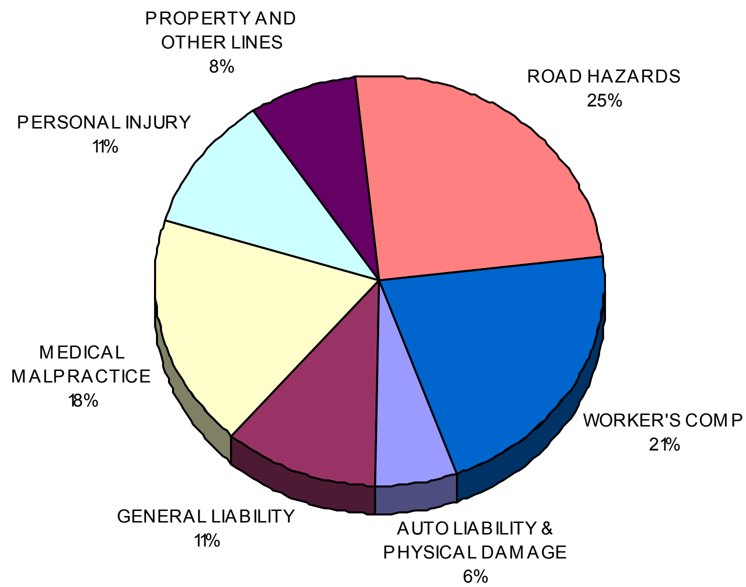
Effective July 1, 2000, ORM was successful in retaining or re-bidding a number of excess insurance coverages through the commercial market:

1) The Workers Compensation coverage for the Louisiana Superdome employees (including the New Orleans Sports Arena completed in October 1999) was renewed for FY 2000-2001 at a premium of $133,931. While this premium is slightly more than the $108,640 paid in FY 1999-2000, the $133,931 includes additional employees hired to operate the new arena. This premium could have been much higher, but the experience modification factor, which is developed by the National Council of Compensation Insurance (NCCI) and is based on an insured's loss experience, was lowered from .88 to .80. The current carrier, Louisiana Workers Compensation Corporation also applied a premium modifier of .2874. These two modification factors saved the State over $50,000 for FY 2000-2001. This savings also includes a 5.5% prompt payment discount.
2) In FY 2000-2001 the aviation market hardened and rates increased on average 15-30% worldwide. The Office of Risk Management acquired the same coverages with an increase of 11% in premiums for the State's aviation coverages.
3) For FY 2000-2001 the Office of Risk Management was successful in retaining $1 Billion per occurrence property insurance for an annual premium in the amount of $3,386,594.

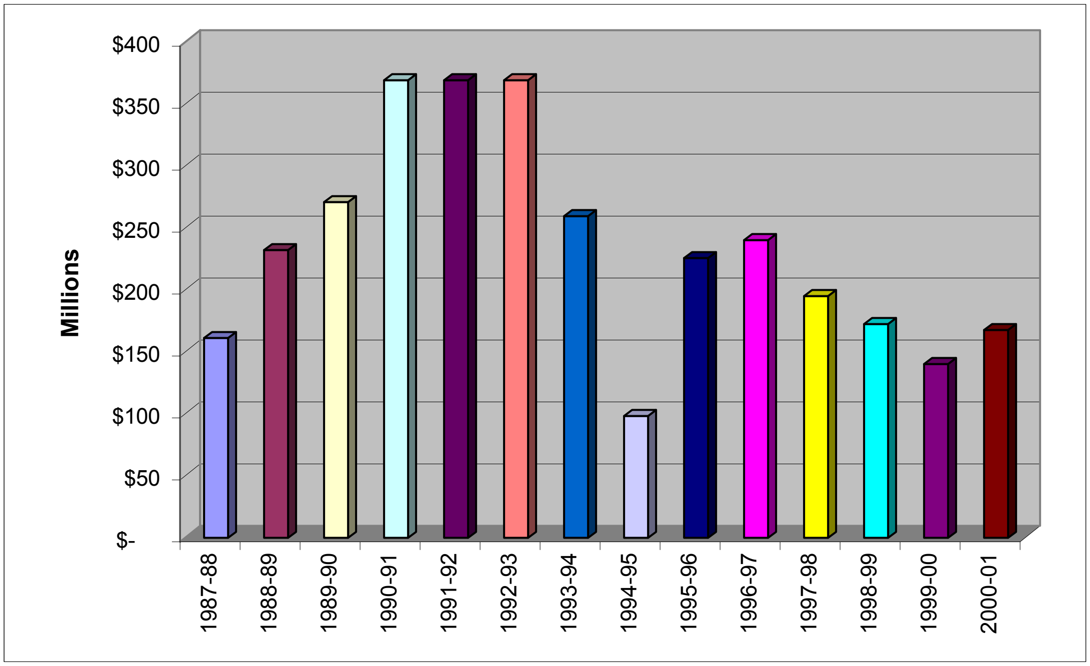
Cash Expenditures by Budget Program



Cash Expenditure by Line of Insurance

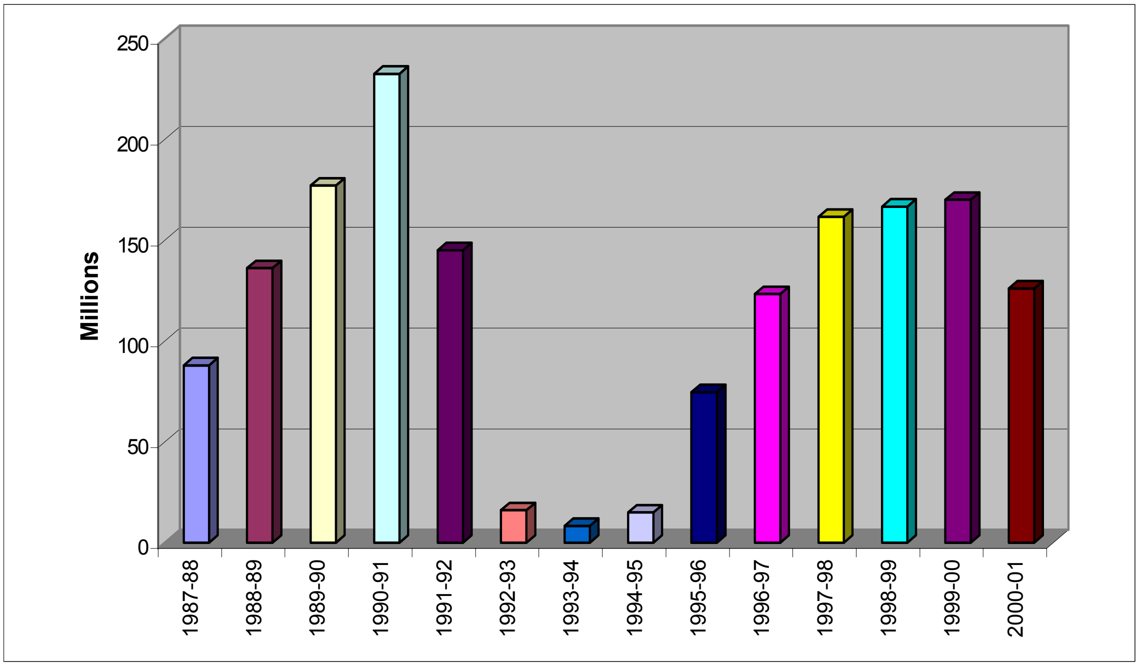


Budget



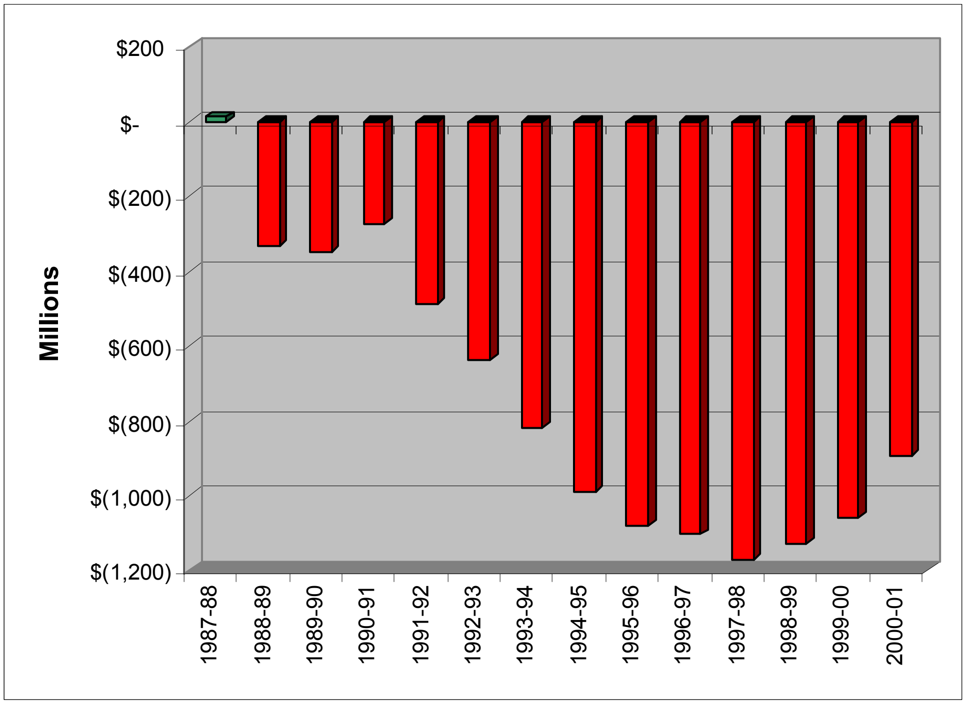
Fiscal Year	Total Budget
1987-88	$ 160,000,000
1988-89	$ 231,163,517
1989-90	$ 269,404,983
1990-91	$ 368,818,757
1991-92	$ 368,317,741
1992-93	$ 368,844,694
1993-94	$ 258,879,001
1994-95	$ 97,565,325
1995-96	$ 224,846,405
1996-97	$ 239,326,671
1997-98	$ 194,393,632
1998-99	$ 171,675,510
1999-00	$ 139,457,883
2000-01	$ 167,491,519

Cash Balance



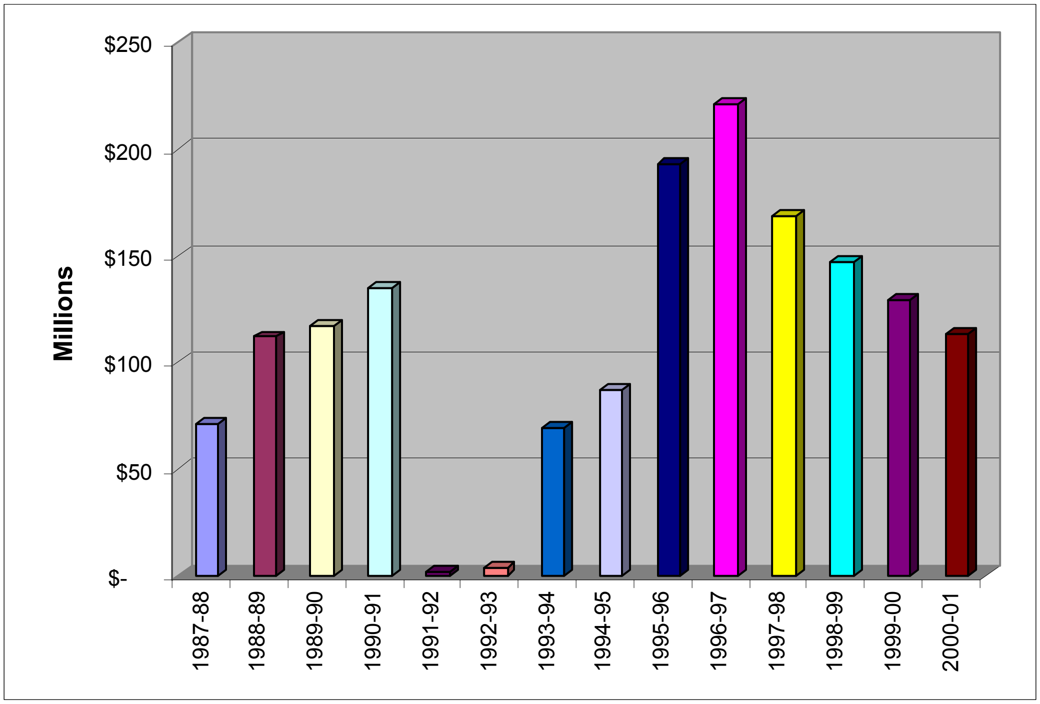
Fiscal Year	Total Cash Balance
1987-88	$ 87,983,512
1988-89	$ 136,197,880
1989-90	$ 177,167,033
1990-91	$ 232,570,471
1991-92	$ 145,048,419
1992-93	$ 16,054,526
1993-94	$ 8,284,465
1994-95	$ 15,004,482
1995-96	$ 74,693,176
1996-97	$ 123,354,824
1997-98	$ 161,624,140
1998-99	$ 166,761,033
1999-00	$ 170,099,177
2000-01	$ 126,071,171

Fund Equity



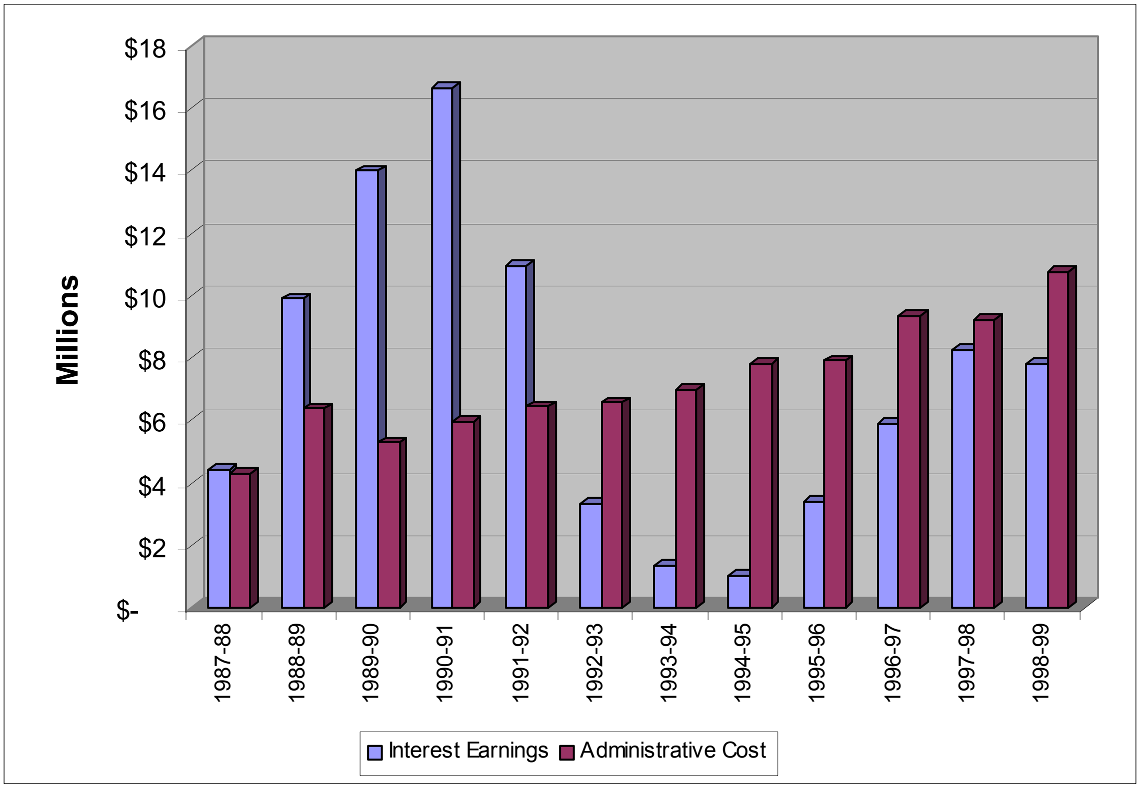
Fiscal Year	Total Fund Equity
1987-88	$ 13,014,112
1988-89	$ (331,090,858)
1989-90	$ (346,662,508)
1990-91	$ (271,958,071)
1991-92	$ (486,507,461)
1992-93	$ (637,901,253)
1993-94	$ (818,644,299)
1994-95	$ (989,537,511)
1995-96	$ (1,078,065,151)
1996-97	$ (1,103,819,414)
1997-98	$ (1,169,748,070)
1998-99	$ (1,126,332,490)
1999-00	$ (1,058,050,563)
2000-01	$ (892,190,771)

Premiums Collected



Fiscal Year	Total Premium Collected
1987-88	$ 70,933,701
1988-89	$ 111,864,517
1989-90	$ 116,745,861
1990-91	$ 134,591,411
1991-92	$ 1,775,132
1992-93	$ 3,145,241
1993-94	$ 68,845,869
1994-95	$ 87,348,273
1995-96	$ 193,360,233
1996-97	$ 221,425,973
1997-98	$ 169,004,359
1998-99	$ 147,388,790
1999-00	$ 128,793,146
2000-01	$ 113,254,354

Interest Earnings vs. Administrative Costs



Fiscal Year	Interest Earnings	Administrative Costs [1]
1987-88	$ 4,412,202	$ 4,313,789
1988-89	$ 9,900,102	$ 6,383,078
1989-90	$13,999,243	$ 5,290,218
1990-91	$16,648,961	$ 5,976,164
1991-92	$10,973,250	$ 6,437,556
1992-93	$ 3,346,419	$ 6,574,934
1993-94	$ 1,342,554	$ 6,995,833
1994-95	$ 1,042,107	$ 7,794,305
1995-96	$ 3,396,422	$ 7,908,967
1996-97	$ 5,887,778	$ 9,338,184
1997-98	$ 8,264,904	$ 9,201,017
1998-99	$ 8,177,315	$ 9,818,911
1999-00	$ 8,829,597	$ 9,944,946
2000-01	$ 7,808,733	$ 10,779,811

1 Includes Administrative and unallocated expenses (adjusting and Second Injury/Workers' Comp Assessments).

Premium Comparison & Program Savings

Shown in the following chart are the Office of Risk Management's Billed Premiums for Fiscal Year 2000-2001 Equivalent Commercial Premiums and the indicated statewide savings by line of coverage. Since Fiscal Year 1997-98 the Billed Premiums have been calculated based on "cash needs" and have not included deficit amounts needed to recoup uncollected premiums from prior years. Again in Fiscal Year 2000-2001 ORM was not allowed by the Legislature to collect 100% of the premiums developed on an actuarially sound basis. The Commercial Premiums do not include any deficit amounts. For comparison purposes on this chart, we have used the billed premium amounts as opposed to the budgeted recommendations that have been used in the past.

Self Insured Coverages	Billed Premium	Equivalent Commercial Premium****	Program Savings
Workers' Compensation	$ 34,657,027	$46,867,601	$12,210,574
W. C. Maritime	1,286,554	2,252,060	965,506
General Liability	20,582,351	29,346,306	8,763,955
Personal Injury Liability	6,935,110	38,335,423	31,400,313
Auto Liability	7,279,821	15,741,732	8,461,911
Auto Physical Damage	1,347,743	3,598,549	2,250,806
Property Damage	9,156,638	30,001,566	20,844,928
Boiler and Machinery	1,084,172	5,506,387	4,422,215
Bonds	300,380	531,442	231,062
Crime	110,231	415,309	305,078
Marine*	0	811,149	811,149
Aviation**	1,404	856,424	855,020
Medical Malpractice	29,707,233	92,030,260	62,323,027
Road and Bridge Hazard***	0	49,363,291	49,363,291
Miscellaneous Tort	1,837,482	1,435,285	(402,197)
GRAND TOTALS	$114,286,146	$317,092,784	$202,806,638

*Marine Insurance premiums in the amount of $826,512 were not billed in Fiscal Year 2000/2001. Funds were not appropriated by the Legislature. The self-insured premium is greater than the commercial equivalent because there have been a greater number of Protection and Indemnity claims that were under the self-insured limit and therefore did not greatly impact the commercial premiums as much as the self-insured portion of the premium.

**Aviation insurance premiums in the amount of $652,570 were not billed in Fiscal Year 2000/2001. Funds were not appropriated by the Legislature.

***Road and Bridge Hazard premiums in the amount of $96,603,000 were not billed in Fiscal Year 2000/2001. Funds were not appropriated by the Legislature. This premium is greater than the commercial equivalent because the commercial equivalent does not include the deficit reduction which resulted when ORM was unable to collect self-insured premiums for this coverage for eight out of the last eleven years.

****The commercial equivalent does not include the deficit reduction amount. If we added the deficit amount to the equivalent commercial premium, it would be greater than the self-insured premium.

STATEMENT OF ACTUARIAL OPINION

Page 1 of 2

I, Michael Bayard Smith, am associated with Tillinghast–Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion for property and casualty lines of business. I am a Fellow of the Casualty Actuary Society.

I have examined the undiscounted reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2001 as presented by the Office of Risk Management, Division of Administration, State of Louisiana (ORM) in its June 30, 2001 financial package.

The scope of my review included all risk groups except the uninsured lines (non-reviewed risk groups). The liabilities I reviewed were on a nominal (undiscounted) basis. The reserves stated by ORM are as follows:

1.	Total Loss & Loss Expense Reserves for Reviewed and Non-Reviewed Risk Groups	$1,040,992,694
2.	Reserve for Non-Reviewed Risk Groups	$68,870,731
3.	Total of Reserves for Reviewed Risk Groups [(1) - (2)]	$972,121,963

My examination included the performance of independent projections of ORM's loss and loss adjustment expense liabilities and such other tests and procedures as I considered necessary under the circumstances. In making my examination, I relied upon ORM as to the accuracy and completeness of its loss and loss expense data and other related information provided to me.

My independent estimates of the reserves are computed in accordance with commonly accepted actuarial methods on an ultimate undiscounted basis and are based upon actuarial assumptions which are reasonable given the coverages provided and the information available. My estimates make no provision for either the extraordinary future emergence of new classes of losses or losses which are not yet quantifiable. I have not anticipated any contingent liabilities that may exist in the event that any of the companies providing excess insurance might be unable to meet their obligations to ORM under existing excess insurance agreements.

Due to the inherent uncertainty associated with actuarial projections of future contingent events, it is possible that the actual future payments associated with the disposition of current loss and loss adjustment expense liabilities could prove to be materially different from the estimated amounts underlying the reserves in the financial package.

It should be noted that ORM's financial package indicates that cash assets are approximately $116 million and that total liabilities are in excess of $1.0 billion as of June 30, 2001.

Tillinghast - Towers Perrin

STATEMENT OF ACTUARIAL OPINION

In my calculations I have assumed that sufficient assets will become available on a timely basis such that ORM will continue to pay claims. In the event that sufficient assets do not become available on a timely basis, there may be a material impact upon our estimates.

As of June 30, 2001, ORM is holding $68,870,731 as a reserve for unpaid loss and loss adjustment expense obligations arising from the uninsured lines. Review of the reserves for the uninsured lines is outside the scope of our analysis. I have, therefore, excluded the uninsured lines from the opinion stated in the next paragraph.

In my opinion, except for the uninsured lines risk group (as explained in the preceding paragraph), the amount stated of $972,121,963 as the reserve for estimated loss and loss adjustment expense liabilities:

(1) is fairly stated in accordance with sound actuarial principles; and

(2) makes a reasonable provision for the unpaid loss and loss adjustment expense obligations associated with the lines reviewed.

This statement of opinion is solely for the use of and is only to be relied upon by public officials of the State of Louisiana who have access to and the ability to understand the data and operations of ORM. Such knowledge is required in order to place appropriate reliance on this opinion.

August 24, 2001

Michael Bayard Smith, FCAS, MAAA
1200 Riverplace Boulevard, Suite 610
Jacksonville, Florida 32207-1803
(904) 391-1915

Financial Statements

Balance Sheet

<u>ASSETS</u>	
Cash and investments	$121,566,946
Insurance/reinsurance balances receivable	$11,684,851
Less reserve for abolished agencies	$0
Interest receivable and other assets	$3,247,667
Prepaid insurance	$13,277,497
Machinery	$1,049,831
Less: Accumulated depreciation	$686,083
TOTAL ASSETS	$150,140,709
<u>LIABILITIES AND FUND EQUITY</u>	
LIABILITIES	
Loss and expense reserves	$1,038,778,356
Unearned premium	$0
Other liabilities	$3,553,124
TOTAL LIABILITIES	$1,042,331,480
FUND EQUITY	
TOTAL FUND EQUITY	($892,190,771)
TOTAL LIABILITIES AND FUND EQUITY	$150,140,709

Statement of Revenues and Expenses

<u>OPERATING REVENUES</u>	
Premiums written	$114,224,058
General fund appr./non-tort reimbursement	$47,260
Add unearned premium from prior year	$57,407
Less unfunded premium	$0
Less unearned premium at statement date	$0
Less cost of insurance	$11,411,740
TOTAL INCOME	$102,916,985
OPERATING EXPENSES	
General and administrative expenses	$7,589,090
Claims cost:	
Losses	$115,784,093
Allocated loss adjustment expense	$21,918,057
Unallocated loss adjustment expense	$3,190,721
Change in provision for losses/expenses	($203,772,237)
TOTAL EXPENSES	($55,290,276)
NET INCOME(LOSS) FROM OPERATIONS	$158,207,261
NON-OPERATING REVENUES AND EXPENSES	
Interest income	$7,808,733
Gain(loss) on sale of fixed assets/misc. inc.	$0
TOTAL OTHER INCOME/LOSS	$7,808,733
TOTAL NET INCOME/LOSS	$166,015,994
RETAINED EARN./FUND BAL. JULY 1, 2000	($1,058,050,563)
Current income(loss)	$166,015,994
Prior year adjustments	($156,202)
RETAINED EARN./FUND BAL. JUNE 30, 2001	($892,190,771)

Financial Statements By Line of Insurance

OFFICE OF RISK MANAGEMENT
FINANCIAL STATEMENTS
June 30, 2001

	AUTO LIABILITY RISK GROUP	AUTO PHYSICAL DAMAGE RISK GROUP	BONDS RISK GROUP	WORKER'S COMP RISK GROUP	MARITIME RISK GROUP	PROPERTY RISK GROUP	GENERAL LIABILITY RISK GROUP
BALANCE SHEET							
ASSETS							
Cash & investments - State Treasury	$16,803,833	($2,886,984)	$181,815	$68,151,221	$4,805,490	($16,943,447)	$102,712,330
Insurance/reinsurance balances receivable	$351,190	$68,057	$4,095	$1,411,733	$0	$2,196,866	$1,098,032
Less reserve for abolished agencies	$0	$0	$0	$0	$0	$0	$0
Interes receivable and other assets	$16,753	$0	$214	$1,650,407	$1,127,870	$0	$104,894
Prepaid insurance	$100,309	$0	$125,178	$102,960	$39,125	$8,461,869	$2,338,655
Machinery	$98,580	$20,155	$1,375	$422,812	$34,559	$32,857	$166,034
Less: Accumulated depreciation	$85,268	$6,074	$814	$293,266	$32,036	$19,405	$131,633
TOTAL ASSETS	$17,285,397	($2,804,846)	$311,863	$71,445,867	$5,975,008	($6,271,260)	$106,288,312
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Loss and expense reserves	$35,910,419	$1,041,193	$540,535	$133,783,531	$5,278,858	$13,150,186	$107,381,136
Unearned premium	$0	$0	$0	$0	$0	$0	$0
Other Liabilities	$103,906	$7,086	$562	$1,924,411	$7,192	$142,821	$272,770
TOTAL LIABILITIES	$36,014,325	$1,048,279	$541,097	$135,707,942	$5,286,050	$13,293,007	$107,653,906
FUND EQUITY	($18,728,928)	($3,853,125)	($229,234)	($64,262,075)	$688,958	($19,564,267)	($1,365,594)
TOTAL LIABILITIES AND FUND EQUITY	$17,285,397	($2,804,846)	$311,863	$71,445,867	$5,975,008	($6,271,260)	$106,288,312
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS							
OPERATING REVENUES							
Premiums written	$7,278,431	$1,347,280	$300,380	$34,657,027	$1,286,554	$9,096,759	$20,582,351
General fund appr./non-tort reimbursement	$0	$0	$0	$43,487	$0	$0	$0
Add unearned premium from prior year	$0	$0	$0	$0	$0	$57,407	$0
Less unfunded premium	$0	$0	$0	$0	$0	$0	$0
Less unearned premium as of date of statement	$0	$0	$0	$0	$0	$0	$0
Less cost of insurance	$171,305	$8,562	$71,712	$249,800	$29,918	$4,669,932	$2,270,057
OPERATING REVENUE	$7,107,126	$1,338,718	$228,668	$34,450,714	$1,256,636	$4,484,234	$18,312,294
OPERATING EXPENSES							
General and Administrative expenses	$310,715	$173,114	$12,135	$3,810,464	$51,643	$385,153	$468,067
Claims Cost:							
Losses	$6,480,977	$1,280,498	$12,910	$27,434,726	$394,870	$2,994,004	$10,799,649
Allocated loss adjustment expense	$670,533	$7,508	$679	$846,486	$161,075	$110,402	$3,966,453
Unallocated loss adjustment expense	$112,116	$101,947	$550	$1,103,445	$2,817	$387,999	$197,812
Change in provision for losses/expenses	$201,254	$594,029	$331,879	($94,792,663)	($3,219,192)	$1,163,590	($4,977,175)
Total operating expenses	$7,775,595	$2,157,096	$358,153	($61,597,543)	($2,608,787)	$5,041,148	$10,454,806
NET INCOME/LOSS FROM OPERATIONS	($668,469)	($818,378)	($129,485)	$96,048,257	$3,865,423	($556,914)	$7,857,488
Interest income	$301,459	$0	$2,928	$1,153,354	$82,273	$0	$1,857,013
Gain(loss) on sale of fixed assets and misc. income	$0	$0	$0	$0	$0	$0	$0
OTHER INCOME/LOSS	$301,459	$0	$2,928	$1,153,354	$82,273	$0	$1,857,013
TOTAL NET INCOME/LOSS	($367,010)	($818,378)	($126,557)	$97,201,611	$3,947,696	($556,914)	$9,714,501
RETAINED EARN./FUND BAL. JULY 1, 2000	($18,357,756)	($3,029,510)	($102,506)	($161,422,623)	($3,257,871)	($19,003,825)	($11,068,792)
Current year income(loss)	($367,010)	($818,378)	($126,557)	$97,201,611	$3,947,696	($556,914)	$9,714,501
Prior year adjustments	($4,162)	($5,237)	($171)	($41,063)	($867)	($3,528)	($11,303)
RETAINED EARN./FUND BAL. June, 2001	($18,728,928)	($3,853,125)	($229,234)	($64,262,075)	$688,958	($19,564,267)	($1,365,594)

Financial Statements By Line of Insurance

PERSONAL INJURY RISK GROUP	MARINE RISK GROUP	AVIATION RISK GROUP	BOILER & MACHINERY RISK GROUP	CRIME RISK GROUP	MEDICAL MALPRACTICE	ROAD HAZARDS	MISC. TORT OTHER	NON-TORT PAYMENTS	TOTAL SELF-INSURED & UNINSURED LINES
$8,084,884	($7,005,304)	($3,697,336)	($1,094,301)	$1,239,743	$182,915,063	($240,593,215)	$9,963,154	($1,070,000)	$121,566,946
$95,402	$6,697	($3,913)	$42,090	$3,395	$6,404,376	$0	$6,831	$0	$11,684,851
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$6,020	$0	$93,177	$0	$1,265	$227,501	$0	$19,566	$0	$3,247,667
$10,270	$787,283	$759,418	$542,778	$9,652	$0	$0	$0	$0	$13,277,497
$16,006	$2,277	$622	$10,635	$2,538	$81,672	$116,826	$42,883	$0	$1,049,831
$17,189	$417	$358	$8,392	$2,310	$23,682	$26,520	$38,719	$0	$686,083
$8,195,393	($6,209,464)	($2,848,390)	($507,190)	$1,254,283	$189,604,930	($240,502,909)	$9,993,715	($1,070,000)	$150,140,709
$75,505,737	$394,272	$39,215	$1,164,019	$12,629	$355,343,120	$284,229,036	$25,004,470	$0	$1,038,778,356
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$242,697	$5,698	$64	$2,253	$28,993	$295,885	$486,608	$32,178	$0	$3,553,124
$75,748,434	$399,970	$39,279	$1,166,272	$41,622	$355,639,005	$284,715,644	$25,036,648	$0	$1,042,331,480
($67,553,041)	($6,609,434)	($2,887,669)	($1,673,462)	$1,212,661	($166,034,075)	($525,218,553)	($15,042,933)	($1,070,000)	($892,190,771)
$8,195,393	($6,209,464)	($2,848,390)	($507,190)	$1,254,283	$189,604,930	($240,502,909)	$9,993,715	($1,070,000)	$150,140,709
$6,935,110	$0	$1,404	$1,083,816	$110,231	$29,707,233	$0	$1,837,482	$0	$114,224,058
$0	$0	$0	$0	$0	$3,773	$0	$0	$0	$47,260
$0	$0	$0	$0	$0	$0	$0	$0	$0	$57,407
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$400,193	$637,963	$665,620	$381,346	$29,540	$28,439	$1,795,517	$1,836	$0	$11,411,740
$6,534,917	($637,963)	($664,216)	$702,470	$80,691	$29,682,567	($1,795,517)	$1,835,646	$0	$102,916,985
$296,181	$30,790	$883	$22,375	$2,292	$593,182	$1,010,425	$36,672	$385,000	$7,589,091
$11,731,893	$120,250	$52,779	$463,919	$405	$23,462,671	$30,114,852	$439,690	$0	$115,784,093
$4,878,048	$23,038	$3	$3,226	$10	$4,751,421	$6,356,070	$143,105	$0	$21,918,057
$175,129	$1,178	$79	$2,418	$236	$530,918	$570,463	$3,614	$0	$3,190,721
($29,075,918)	$24,382	($469)	$63,009	$6,016	$16,140,239	($95,177,324)	$4,946,106	$0	($203,772,237)
($11,994,667)	$199,638	$53,275	$554,947	$8,959	$45,478,431	($57,125,514)	$5,569,187	$385,000	($55,290,276)
$18,529,584	($837,601)	($717,491)	$147,523	$71,732	($15,795,864)	$55,329,997	($3,733,541)	($385,000)	$158,207,261
$221,919	$0	$0	$0	$21,267	$3,847,306	$0	$321,214	$0	$7,808,733
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$221,919	$0	$0	$0	$21,267	$3,847,306	$0	$321,214	$0	$7,808,733
$18,751,503	($837,601)	($717,491)	$147,523	$92,999	($11,948,558)	$55,329,997	($3,412,327)	($385,000)	$166,015,994
($86,261,874)	($5,771,467)	($2,170,154)	($1,820,265)	$1,119,735	($154,068,123)	($580,521,049)	($11,629,483)	($685,000)	($1,058,050,563)
$18,751,503	($837,601)	($717,491)	$147,523	$92,999	($11,948,558)	$55,329,997	($3,412,327)	($385,000)	$166,015,994
($42,670)	($366)	($24)	($720)	($73)	($17,394)	($27,501)	($1,123)	$0	($156,202)
($67,553,041)	($6,609,434)	($2,887,669)	($1,673,462)	$1,212,661	($166,034,075)	($525,218,553)	($15,042,933)	($1,070,000)	($892,190,771)

Notes to Financial Statements

INTRODUCTION

The Office of Risk Management is an agency of the State of Louisiana reporting entity and was created in accordance with Title 39; Chapter 1527:1544 of the Louisiana Revised Statutes of 1950 as a part of the Executive branch of government. The Office of Risk Management is charged with administering the self insurance program within the State of Louisiana.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Risk Management prepared its financial statements in accordance with generally accepted accounting principles.

Annually the State of Louisiana issues a comprehensive annual financial report which includes the activity contained in the accompanying financial statements. The comprehensive annual financial report is audited by the Louisiana Legislative Auditor.

1. FUND ACCOUNTING

General Operating Appropriation

The General Operations Fund is used to account for all general and auxiliary fund appropriated operating expenditures and minor capital acquisitions. All appropriated general and auxiliary operations revenue is accounted for in this fund.

Payroll Clearing Fund

The Payroll Clearing Fund is used to account for payroll deductions and accrued benefits.

2. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of the Office of Risk Management are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration - Office of Statewide Reporting and Accounting Policy as follows:

Revenues - State General Fund and Interim Emergency Board appropriations are recognized as the net amount warranted during the fiscal year including the 45 day close period.

Fees and self-generated revenues, interagency transfers, federal funds, intra-fund revenues, non-appropriated revenues, and other financing sources (with the exception of agency funds) are recognized in the amounts earned, to the extent that they are both measurable and available.

Expenditures - Expenditures are generally recognized under the accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recorded as expenditures when paid.

B. IMPREST FUNDS

The agency maintains a permanent Travel and Petty Cash Imprest Fund in the amount of $8500.00 as authorized by the Commissioner of Administration and advanced by the State Treasurer's Office in accordance with Title 39. The funds are permanently established and periodically replenished from agency operating funds when expenditure vouchers are presented.

C. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

All agency cash and investments are deposited in the State Treasury.

D. GENERAL FIXED ASSETS

At June 30, 2001 the agency had stewardship responsibility for $1,049,557 in movable property. The agency does not include in the movable property inventory items valued at $1000.00 or less.

In accordance with Louisiana Revised Statutes 39:321-332, the agency has complied with the movable property statutes of the State of Louisiana.

A summary of changes in movable property follows:

Balance July 1, 2000	Adjustments	Restated Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
$ 1,276,781		$ 1,276,781	92,430	319654.21	$ 1,049,557.12

E. INVENTORY OF MATERIALS AND SUPPLIES

Not applicable.

F. SEEDS

Not applicable.

G. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances are recorded by the agency but are not included in the financial statements. The agency does not have the ability to finance the liquidation of encumbrances after June 30, 01 as provided by Louisiana Revised Statute 39:82(A).

H. LONG TERM OBLIGATIONS

The agency by statute is not allowed to incur bonded indebtedness and therefore no recognition within this account is necessary. Further, any long term obligations of the agency arising from lease commitments, judgments, or compensated absences are not recognized in the accompanying statements but are disclosed within these notes.

I. JUDGMENTS, CLAIMS AND SIMILAR CONTINGENCIES

See addendum to notes.

J. LEAVE

1. Annual and Sick Leave

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. The liability for unused annual leave payable at June 30, 2001, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be $449,647.88. The leave payable is not recorded in the accompanying financial statements.

2. Compensatory Leave (Use for Non Exempt Employees)

Employees who are considered having non exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K time). Upon termination or transfer an employee will be paid for any time and one half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at June 30, 2001 computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be $1180.06. The leave payable (is) (is not) recorded in the accompanying financial statements.

K. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS PER GASB 12

LRS 42:821 through 42:880 establishes the self insured and self funded state employees group health care and life insurance program and authorizes the Office of Risk Management agency to provide certain continuing health care and life insurance benefits for its retired employees. Substantially all of the agency's employees become eligible for those benefits if they reach normal retirement age while working for the agency. Monthly premiums are paid jointly by the employees and the employer (from the agency appropriation) for both retirees' and active employees' benefits regardless of whether benefits are provided by Group Benefits or one of the HMOs authorized by Group Benefits. The agency recognizes the cost of providing benefits as an expenditure when paid during the year. For the year ended June 30, 2001, the costs of retirees' benefits totaled $90,841, while the number of retirees is 23. (As defined by the GASB Statement 12, dependents of a retiree should be counted as a single unit if the retiree is deceased and should not be counted if the retiree is alive.) The cost of retirees' benefits is net of participant's contribution.

L. ENCUMBRANCES

Not applicable.

M. LEASE AND RENTAL COMMITMENTS

Lease agreements, if any, have non appropriation exculpatory clauses that allow lease cancellation if the Legislature does not make an appropriation for its continuation during any future fiscal period. Total operating lease expenditures for fiscal year 2000 2001 amounted to $24,762.

1. OPERATING LEASES

Operating leases are all leases which do not meet the criteria of a capital lease. Operating leases are grouped by nature (i.e. office space, equipment, etc.) and the annual rental payments for the next five fiscal years are presented in the following schedule.

Nature of lease	FY2002	FY2003	FY2004	FY2005	FY2006	There-after
a. Office space	$ 12,888	$ 12,888	$ 9,666	$	$	$
b. Equipment						
c. Land						
d. Other						
Total	$ 12,888	$ 12,888	$ 9,666	$	$	$

Rental expense for operating leases with scheduled rent increases is based on the relevant lease agreement except in those cases where a temporary rent reduction is used as an inducement to enter the lease. In those instances, rental expense is determined on either a straight line or interest basis over the term of the lease, as required by GASB 13, and not in accordance with lease terms. The agency does (does not) have leases with scheduled rent increases due to temporary rent reductions used as an inducement to enter the lease. The resulting revenues/expenses are (are not) shown on the statement of operations. If not included on the statement of operations, attach a schedule listing all such leases.

N. RELATED PARTY TRANSACTIONS

ORM maintains an IAT agreement with the AG's DRL for services. In FY 00-01, this agreement was capped at $10,791,492. Actual payments on this IAT agreement were $10,515,732.37.

O. ON-BEHALF PAYMENTS FOR FRINGE BENEFITS AND SALARIES

None.

P. PASS-THROUGH GRANTS

None.

Q. IN-KIND CONTRIBUTIONS

None.

R. PAYROLL AND RELATED BENEFITS ACCRUAL

Agencies will be required to reflect the 2000 2001 accrued personal services cost for this fiscal year on the accompanying financial statement. The following schedule will aid you in doing so. As most agency units pay their employees biweekly this would require a fiscal year 1999 2000 accrual calculation based on five (5) days and the fiscal year 2000 2001 calculation will be based on five (5) days. Agencies must also determine the federal match on this accrual calculation.

		FY 1999-2000	FY 2000-2001
1.	07/14/00 Payroll (gross & related)	$216,068.00	
2.	07/13/01 Payroll (gross & related)		$195,550.96
		X 50.0%	X 50.0%
3.	Payroll accrual	$108,034.00	$97,775.43
4.	Estimated federal receivable attributed to the accrual shown above	$	$

Expenditure Schedule

5.	Total programs from Schedule 1	$117,521,642.97
6.	Less: 1999-2000 accrual from line 3, column 1 above	108,034.00
7.	Plus: 2000-2001 accrual from line 3, column 2 above	97,775.43
8.	To Statement B (this should be the total for *all* programs)	$117,511,384.40

Federal Receivable Attributed to Payroll Accrual

9.	Federal Funds from Schedule 3, column VIII, line A or Schedule 3-1, column V, line 1	___________
10.	Less: 1999-2000 accrual from line 4, column 1 above	___________

11.	Plus: 2000-2001 accrual from line 4, column 2 above		________
12.	To Statement B (line 4) Federal Funds	$	________

S. TOTAL COLUMNS ON COMBINED STATEMENTS – MEMORANDUM ONLY

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

T. FUND DEFICITS

See addendum to notes.

U. RESERVE FOR CONTINUING OPERATION(S)

The Unit is by statute allowed to retain residual fund balance in order to finance future operations. For the fiscal year ended June 30, 2001, $121,566,946 was the amount reserved.

V. PER DIEM PAID BOARD (COMMISSION) MEMBERS

None.

W. CONSULTANT FEES FOR FEASIBILITY STUDIES AND OTHER SPECIAL REPORTS

None.

X. COOPERATIVE ENDEAVORS

None.

Y. GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS (GRANTS)

None.

Z. SUBSEQUENT EVENTS

None.

ADDENDUM TO THE NOTES TO THE CAFR

1. A description of the risks of loss to which the state is exposed and the ways in which those risks of loss are handled.

There are four basic types of risks to which the State is exposed. Loss can occur as a result of (1) damage to property, (2) loss of property, (3) loss of income or increased costs because of damage to or loss of property, and (4) liability to others as a result of injury to persons or property. These four main types of risks are not mutually exclusive; they are interrelated. Many accidents and claims involve losses in several risk areas.

Risk Management is a process for identifying and controlling risks. Until the mid 70's, the traditional method of minimizing losses was to transfer risk to a commercial insurance company. Over the years, the State has been pushed toward self-insurance because of increases in insurance premiums and policy cancellations by commercial insurance companies. Now the Office of Risk Management handles the risks to which the State is exposed through a program that includes self-insurance to a specific level and excess commercial insurance above that level. The $ limits will vary according to coverage.

The best way to insure against loss, however, is through loss prevention and safety programs. Such programs help minimize losses, save money, and most importantly, protect state employees and citizens. The Office of Risk Management aggressively pursues loss prevention through its own Loss Prevention Unit.

2. A description of any significant reductions in coverage from the prior year and whether settlements exceeded coverage for each of the three preceding fiscal years.

There were no significant reductions in coverage during FY 00/01.

During the last four fiscal years, there were no claims that exceeded coverage.

There have been significant changes in case law which have had adverse impact on the state's liability in general liability claims. On September 3, 1993, the Supreme Court of Louisiana, per case No. 93-C-0472, reversed a lower court's decision in applying Louisiana Revised Statute 13:5106 (B)(1) which provides that "(I) any suit for personal injury, the total amount recoverable, exclusive of medical care and related benefits and loss of earnings, and loss of future earnings, as provided in this Section, shall not exceed five hundred thousand dollars ($500,000)." The Supreme Court held that the ceiling contravenes the constitutional proscription against sovereign immunity contained in LSA - Constitution, Article XII, § 10. As a result of this ruling, the $500,000 ceiling on general damages in a personal injury suit was removed and the State of Louisiana faced larger exposure in suits of this nature. This action is still having an adverse effect on claims reserves.

In 1995, the Louisiana electorate ratified a constitutional amendment authorizing the Legislature to cap liability. The result was tort reform acts passed by the Legislature that places a cap on general damages of $500,000 with no cap on special damages, and limits joint and solidary liability to a tort feasor's allocated degree of fault.

On May 9, 1996, the governor approved Act Number 63, known as the "Louisiana Governmental Claims Act". This act placed limits on all suits for personal injury and wrongful death. The act states, "The total amount recoverable, including all derivative claims, exclusive of property damages, medical care and related benefits and loss of earnings, and loss of future earnings, shall not exceed five hundred thousand dollars." This tort reform, although not retroactive on open cases, will have an effect on future claims by a reduction of costs.

3. The basis for estimating unpaid claim liabilities.

The philosophy relevant to ORM's reserving policy is based on the best determination of the State's exposure taking into consideration the severity of the injury and the comparative fault if applicable. In those cases where suit has been filed, the attorney is requested to evaluate the State's exposure as early as possible in order to establish a proper reserve.

Workers Compensation reserves are based on exposure determined by the severity of injury, age of claimant, education or lack of it, and potential for return to employment.

4. The carrying amount of unpaid claims liabilities included in the comprehensive annual financial statements of the State of Louisiana at present value and range of rates used to discount them.

Prior to FY 91/92, ORM discounted claim liabilities on year-end statements. Beginning in FY 91/92, the State Legislature passed an Appropriation Bill that cut ORM's funding by 99%. This was repeated in FY 92/93. For FY 93/94, ORM received funding of approximately 50% of what is needed on a cash basis. In FY 94/95 ORM received funding of approximately 70% of what is needed on a cash basis. In FY 95/96 ORM received funding of approximately 80% of what is needed on a cash basis, which included a general fund appropriation of $10,488,526 towards deficit reduction. In FY 96/97, 97/98, 98/99, 99/00, and 00/01 ORM received funding of approximately 75% of what is needed on a cash basis. Because of the lack of funding, ORM discontinued discounting and has not discounted the present value of claim liabilities since FY 89/90.

The provision for losses and loss adjustment expenses includes paid and unpaid claims and expenses associated with settling claims, including legal fees. The liability for unpaid losses and loss adjustment expenses is based on claims adjusters' evaluations of individual claims and management's evaluation and an actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the estimated ultimate cost of settling the claims, including the effects of inflation and other economic factors. Adjustments resulting from the settlement of losses are reflected in earnings at the time the adjustments are determined.

The present value of reserves for claim liabilities for FY 00/01 as reported on the financial statements totals $1,038,778,357. A further breakdown of this total follows:

	Total Reserves	Net of Estimated Recoveries
Current	$42,484,014.00	$42,393,645.00
Long-Term	$998,508,680.00	$996,384,712.00
Total	$1,040,992,694.00	$1,038,778,357.00

Changes in Aggregate Claims Liabilities

	Beg of F/Y Liab	Claims & Changes in Est	Claim Payments	Est. Recov from settled & unsettled claims	Balance @ F/Y
1992-93	$642,395,392	$139,040,811	($113,665,754)	($50,031)	$667,720,418
1993-94	$667,720,418	$228,995,905	($53,916,903)	($345,195)	$842,454,225
1994-95	$842,454,225	$265,288,947	($89,878,735)	($345,849)	$1,017,518,588
1995-96	$1,017,518,588	$273,810,423	($121,308,199)	($300,682)	$1,169,720,130
1996-97	$1,169,720,130	$234,558,097	($150,597,533)	($165,541)	$1,253,515,153
1997-98	$1,253,515,153	$210,274,436	($113,374,552)	($361,229)	$1,350,053,808
1998-99	$1,350,053,808	$86,940,260	($130,637,348)	$230,425	$1,306,587,145
1999-00	$1,306,587,145	$47,490,493	($112,428,805)	$902,160	$1,242,550,593
2000-01	$1,242,550,593	($67,365,094)	($137,702,150)	$1,295,008	$1,038,778,357

The cumulative total of estimated recoveries at June 30, 2001 is $2,214,337. Claims payments include all allocated loss adjustment expenses including legal expense and are net of actual recoveries on settled and unsettled claims.

5. The aggregate amount of claims liabilities outstanding for which annuity contracts were purchased in claimants' names and for which related liabilities have been removed from the balance sheet.

From time to time the Office of Risk Management purchases annuities as partial settlements of certain claims. 3rd party trustees make the payment of the annuities to the claimants over a period of time.

At June 30, 2001, there are 107 active annuities. The outstanding amount due on these 107 annuities as of June 30, 2001 was $233,367,538.32. Of the 107 annuities, 93 contain wording that releases ORM from any and all future liability on the claims. The remaining liability, on the 14 that do not contain the wording necessary to release ORM from any possible future liability, totals $38,448,668.93. At June 30, 2001 the total amount of annuities purchased was $43,149,087.62.

During the fiscal period the general appropriations/ancillary auxiliary fund type employs encumbrance accounting to assure compliance with annual appropriation acts.

The Auxiliary Appropriation funds are allowed to retain excess resources to fund future program expenses as a restricted fund balance. The non-appropriated funds are not subject to budgetary control.

6. Statement as to Fraud Event

On December 8, 2000 Seth E. Keener, Jr., State Risk Director notified Dr. Daniel Kyle, Legislative Auditor in writing as to the following:

"On December 4, 2000, this office (ORM) was made aware of a security problem involving embezzlement of funds by employees of the agency. A figure has not been determined although it is believed to be a substantial sum. The embezzlement has taken place over a period of two years."

Update as of 8-29-01

Seven people have been indicted for this crime, two former employees of the Office of Risk Management and five employees of another agency. The total amount of fraudulent claims is between $900,000 and $1,000,000. Many people participated in this scheme. Law enforcement officers are contacting each individual who received fraudulent funds and each is being required to pay back what they received.